CHAPTER 6
A SUMMARY OF FINDINGS AND CONCLUSIONS

Introduction

Cooperatives in India over the years have witnessed a spectacular change in their size, structure and volume of business. At the nascent stage the size of a cooperative society was deliberately kept small; the structure was unitary; and, the volume of operations was restricted. Later, considering the viability and the demand for services from cooperatives, the cooperatives extended their jurisdiction, built up federal structure, and, enhanced the volume and the variety of transactions. Cooperatives, thus, in course of time, have grown into large complex organizations. This necessitated proper planning and effective controlling of operations of cooperative business. However, cooperatives were largely managed by honorary Boards of Directors. They had very limited knowledge of modern methods of managing a business. The paid Executives too were not fully qualified and adequately trained. Hence it was felt necessary to professionalize the cooperative management and to introduce modern management tools and techniques. Several measures were initiated towards this end. They include: (i) restructuring of accounting system; (ii) introduction of management accounting practices; and, (iii) professionalization of the cooperative management. The government, in its efforts to tone up the administration, directed the cooperatives to adopt certain management accounting practices like budgetary control, costing, internal audit, information system and so on. Cooperatives, especially the larger ones, have adopted such practices. What is the status of management accounting practices in cooperatives? How do they work? What are the promoting or retarding factors? These issues essentially form the focus of the study.
More specifically, the study aims at reviewing the current financial accounting system in the selected cooperatives; assessing the status of accounting-based planning and control tools and techniques used in the selected cooperatives; and, exploring the possibilities as well as constraints in introducing or improving the management accounting practices in cooperatives.

The scope of the study is restricted to the financial accounting and planning and control tools such as budgeting, costing, internal audit and management reporting practices as found in the cooperatives. The study also makes an attempt to see whether the existing accounting system provides enough scope for strengthening the management accounting practices in the cooperatives.

Methodology

The study is descriptive. Case study method has been used. The study has attempted to analyse the financial and management accounting practices in four different cooperative units which include a cooperative wholesale stores, a cooperative milk producers union, a cooperative spinning mill and a cooperative sugar mill. The reasons for the selection are: (i) they are large in size; (ii) there is a need and vast scope for introduction of modern management planning and control tools; and, (iii) they are distinctively different from each other.

Structured interview schedule has been used to canvas information and data on the existing accounting system and accounting tools and techniques used for planning and controlling the operations of the business. The style of analysis includes: (i) presentation of each case, (ii) drawing informations from the cases and collate them to present a comparative picture of accounting practices.

Findings of the Study

Financial Accounting Practices in Cooperatives

The cooperative units under study follow an indigenous system of financial accounting called cooperative account keeping. This system, although as a process, falls well in line with the universally accepted definition of accounting, varies vastly in its practices from the modern system of account keeping. The system
rather adopts a single principle from the primary entry through the preparation of final accounts. The dictum is every business transaction involves either receipt or payment of money. The system also assumes that credit transactions eventually turn into cash transactions and therefore they can be converted into cash transactions by using adjustment due to and due by accounts and giving contra effect to credit transactions. That is, all transactions are simply treated as cash transactions and cash book, called day-book, is the only book of original entry maintained under the system.

The system adopts two accounting principles for recording the transactions:

(i) All cash benefits received or assumed to have been received are entered on the receipt side; and,

(ii) All cash payments made or assumed to have been made are entered on the payments side.

The Nature of the System: The cooperative account keeping system, despite its separate identity, does not have its own established principles and conventions. The system adopts the principles and practices followed under the receipts and payments system for entering and posting the transactions in the books of accounts. It also adopts the principles and conventions of the double entry system, especially in the preparation of financial statements. Thus, the cooperative accounting is a blend of the features of double entry system and receipts and payments system.

As a consequence, the preparation of financial statements becomes a cumbersome work in the cooperatives, as it requires preparation of a working sheet by consulting the opening balance sheet, list of adjustment items and the current year receipts and payments statement.

The problems in the existing system: The present financial accounting system in cooperatives suffers from certain weaknesses. They include:

(i) All sorts of transactions which require adjustments are dumped under the suspense heads. This creates problems in understanding the financial statements.
(ii) Accounts in the ledgers are opened without incorporating the previous financial year's balance. This practice demands the use of opening balance sheet for preparing the financial statements.

(iii) Cooperatives do not have clear cut accounting policy regarding the treatment of certain items such as valuation of inventory, depreciation calculation etc. This leads to inconsistency in the adoption of accounting practices and therefore affects the accounting practices in cooperatives.

(iv) The cooperatives do not have accounting manual indicating the duties and responsibilities of the personnel in the accounting section.

(v) Integration of physical and financial accounting practices found in the cases of cooperative wholesale unit and the spinning unit have facilitated the functions of purchase, control of inventory and stores management. But lack of organizational manual and internal control systems led to non-completion of accounts, especially in the case of the cooperative wholesale stores.

Management Accounting Practices in Cooperatives

Budget

The cooperatives under study prepare different types of budgets. The budgets normally take the form of projected income and expenditure statement. Budgets are prepared after doing adequate spade work in the spinning, sugar and dairy units. However the budgets in the wholesale unit are prepared as a formality to be fulfilled every year.

Preparation of Budgets: The approach in budgeting process varies with the nature of the business and organizational structure. The approach in the wholesale unit is top-down. The targets are fixed by the government. Officials are not involved in the preparation of budget, the reason being the wholesale unit primarily serves as an agent of government for distributing the essential commodities under public distribution system. The budgets in the spinning and
the sugar units are also prepared based on the guidelines issued by the Registrar of Cooperatives. The budgets in these two cases are also externally influenced through personnel working in the units are involved in the building up of the budgets. The approach in the dairy unit is bottom-up. The managers responsible for different divisions (responsibility centres) are involved at different stages of budgeting. This is mainly because of the well-established organizational structure. Installation of information system too facilitates the involvement of personnel in budgeting.

Master budget with monthly break-up of details is prepared in all the four units under study. The method adopted in the wholesale and the spinning units in the preparation of monthly budgets is not scientific as annual budget figures are simply divided by number of months in year to arrive at the monthly budgets. Seasonal variations are not normally taken into account. On the contrary, in the sugar and the dairy units, the seasonal factors are considered in budget preparation. Monthly budgets mostly serve the purpose of monthly performance review.

Budgeting Organization: The Board of Managements responsible for the preparation of budget in cooperatives. But, the Boards of Management were superseded. The special officers appointed by the Government in the place of the Board have been looking after the functions of the board. The budget preparation therefore remains the responsibility of the special officers. The others involved in the budgeting process are the head of the accounts section and the factory manager. Exception to this is the dairy unit where along with the special officer and the deputy manager (accounts) all other divisional heads are involved in budget preparation. Thus participator process in budget preparation has been lacking in the cooperative units.

Basic Assumptions: Cooperative units, while preparing the budgets, irrespective of their business, invariably assume that the trend in the past and present performance with regard to procurement, production and sale will continue into the future.
Sources of Information for Budgeting: Accounting, costing and other technical information are used in the budgeting process. All these information are internally generated mainly from the accounting books and records. The cooperative units scarcely make use of data related to external factors such as market conditions, expected price changes etc.

Budget Review: The budgets of the cooperative units are reviewed prior to implementation. The budgets of the wholesale, spinning and sugar units are reviewed by the Registrar of Cooperatives at the State level for approval. The budgets are not reviewed at the unit level as they are prepared on the basis of the guidelines issued by the Registrar of Cooperatives. But, in the dairy unit, budgets are reviewed both at unit and the State level. The unit level review is mainly conducted to coordinate the divisional programmes and to assess the attainability of the divisional programmes in consultation with the budgets of other divisions.

Failure to review the budget at the unit level is one of the serious drawbacks, which limits the scope of involvement of different personnel in implementation and monitoring and, therefore, in the attainment of the targets.

The members of the cooperative units are also not involved either in the budget preparation or in the review. The right of the General Body as the supreme authority to review and approve the budgets is denied in practice.

Budgetary Control: The cooperative units adopt the practice of reviewing the performance against the budget. The performance is reviewed every month and also at the end of the year. The spinning unit reviews its performance every day. The performance review is also conducted at the State level in the presence of the Registrar of Cooperatives. This is in addition to the unit level performance review.

The unit level performance review is conducted mainly to ascertain the reasons and causes for the variance in the performance.

The State level review aims at examining the performance of each unit with reference to production, capacity utilization, sales, expenditure etc., and for tracing
the reasons for sluggishness, if any. The performance review helps the Registrar to issue necessary directions for corrective action. The State level performance review provides an opportunity for comparison of each unit with other units and with the industry as a whole.

The major drawbacks of such a State level review are: (i) the performance of the all the units in the particular sector/industry is reviewed in a day and, as a result, the review lacks rigour and depth; and, (ii) the review is done once in a month, and, therefore, the review is not helpful in the day-to-day or weekly operational decision-making process.

Costing

Except in the wholesale unit, costing practices are prevalent in all the units under study. Though standards and norms do exist in the wholesale unit, cost ascertainment and allocations are not done either on concurrent or on monthly basis. However, the external auditor works out the cost details so as to classify the wholesale unit under different audit classifications. The spinning and dairy units follow standard costing system and process costing method in the cost allocation process. The sugar unit adopts the traditional costing system and unit costing method,

Costing Organization: Costing is the primary responsibility of the accounts section in the cooperative units. The cost identification and apportionment work is assigned to accounts assistants in the sugar and spinning units. A separate section is found for costing in the dairy unit. The accounts assistants in the sugar and spinning units and the section head in the dairy unit report to the head of the accounts section.

The Status of the System: Cost accounting system is not compulsory in the case of cooperatives in India. The Cooperative Act also does not insist on the maintenance of cost records and registers by the cooperative units. However, costing systems and methods have come to be adopted as the Registrar of Cooperatives insists on such systems and methods. The reason is that cost information is required for performance review. The dairy unit maintains cost
accounting books and records. The other units maintain printed formats for costing purposes.

**Cost Identification and Allocation:** Barring in the wholesale unit, the cost elements are identified and apportioned to the process. The total cost in the sugar unit is ascertained by adding all relevant costs inclined in the production process. The cost apportionment in the spinning unit is done using scientific methods such as machine hour, man hour and number of shifts worked etc. The unit cost in all these units is arrived at by dividing the total cost by total number of units produced during the period.

**Cost Control:** Despite the fact that the cooperative units have standard costing system and cost budget (sugar unit) for controlling the cost, the units under study have failed to practise the system. The reason may be explained. The cost details are worked out and cost performance is reviewed once in a month. The outcome of the review could not be used in the control process as the information reaches too late for the authorities to take further action based on review report.

Further, cost standards are fixed for all the units in a particular sector without taking into account the differences in age and technological level of the units. The standards/norms are also not periodically updated. As a result comparison of actuals against the norms and standards becomes meaningless and, therefore, costing and cost control are not effective in the cooperative units. Another serious drawback in the existing standard costing system is that the guidelines issued by the federation insist that the cooperatives concerned need to initiate action only when the variance exceeds 10 per cent of the standard fixed. This guideline defeats the very objective of standard costing.

**Internal Audit**

External audit in cooperatives is statutory audit. Cooperative audit carried out by the department auditor covers a wide spectrum of activities. It covers administrative and method audits. The audit is also undertaken on regular and concurrent basis. The units under study have internal audit system. The wholesale unit has appointed a superintendent for internal audit. The spinning unit has an
officer deputed by the Directorate of Handlooms and Textiles to look after the audit function. The internal audit in the sugar and daily units is undertaken by internal auditors appointed on a year to year contract basis. Thus, a divergent set-up could be noticed in the organization of internal audit in cooperatives.

The Scope of Internal Audit: The units in the wholesale and the spinning industry have not clearly spelt out the scope of internal audit, whereas the sugar and the daily units have an elaborate list of items which the internal auditor has to look into.

The scope of internal audit includes pre audit of certain items such as pay roll and bill payments. This ensures compliance with rules and regulations stipulated.

Internal audit is chiefly confined to mere vouching and verification. Suggestions for improvement of existing control systems are rarely made by the auditors. Time is cited as a constraint as the internal auditors are appointed on a contract basis.

A comparison of the scope of internal audit in all the four units revealed that there is no uniformity. The scope varied from mere checking and vouching of receipts and payments to verification of compliance with the guidelines and directives issued by the government department from time to time.

Duties and responsibilities of the internal auditors are not properly spelt out. The wholesale and the spinning units do not specify the role at all. The job functions of internal audit in the sugar unit indicate that the internal auditor has all the rights and responsibilities that a department auditor enjoys. Thus there is not much difference between the role of an internal auditor and the department auditor.

The internal audit is effective only to the extent of detecting and rectifying of errors and conforming to the rules and regulations of the cooperatives.

Thus, internal audit in the cooperative units is not practised in consonance with its objectives. It is therefore not effective.
Management Reporting

The management of all the four types of cooperatives under study are externally influenced. The functional Registrars, like Director of Handlooms, Commissioner of Milk and Commissioner of Sugars have vast powers to direct the individual units to perform the day-to-day operations as per the direction given by them. As a result, the management heavily relies on the directions received from the state authorities. The functional Registrars for directing the operation of the cooperatives obtain the reports from the individual cooperatives at a fixed interval normally one month. Reporting in cooperatives therefore is essentially external. The reports also mostly contain costing and budgeting information which help the authorities to assess the performance of the cooperatives and to issue directions to initiate corrective actions.

The most important reason for the cooperatives not evincing adequate attention to internal accounting and reporting to facilitate planning and control is the domination of the bureaucracy in vital matters like fixation of price and mode of disposal of the products. This has acted as a major stumbling block in designing and using accounting information in the day-to-day operations and also in the decision-making process.

Factors Hindering the Adoption of MAS

The study has identified certain factors that hinder the adoption of management accounting practices. They are listed here:

* Cooperative units are subject to a great deal of external control. The Chief Executive of each cooperative unit, appointed by the government, has to act as per the direction of the Registrar of Cooperatives. He cannot act independently. Decision-making process is highly centralised. Participatory democratic management is defunct. All these undermine the initiative at the unit level. This is a major hurdle in adopting the MAS.

* Reorganization and restructuring of the existing accounting system is a pre-condition for effective adoption of MAS. But the cooperative units
are yet to fully restructure the financial accounting system. Legal provisions do restrict the attempts towards modification of accounting system.

* Cooperative units over the years have not evolved a clear-cut accounting policy.

* The accounting section in some of the units is poorly organized. Duties, responsibilities and powers of the accounting personnel are not properly demarcated.

* Sustained practice requires the utmost cooperation and devotion of the staff which is possible only when the system is internally evolved. However, the initiative to introduce management accounting practices has mainly come from the federal organization and the government. As a result many staff members of cooperative units believe that introduction of management accounting is mainly meant to satisfy the requirements of the federation.

* The members of the staff have a very poor perception about the system. Management accounting is not considered as part of the total system. Many still believe that restructuring of financial accounting is management accounting.

* The accounting department, with the exception of the daily unit, is yet to be professionalised. The interests of the Chief Executives (Special Officers) also vary. They are quite often transfened. Hence no Chief Executive seems to have given serious thought to integrate accounting, business and administration.

* The significance of information in the decision-making process is not properly recognized as i) the management is not participative, and, ii) there is restricted scope for internal decision-making process.

* Members of staff are not adequately trained in the systems.
* Informational requirements under MAS could be obtained without much effort if the financial accounting is fully computerised. However, adoption of indigenous system of accounting acts as a constraint in computerising the financial accounting.

Supportive Features for Adoption of MAS

The features which favour the implementation of MAS would include the following:

* Installation of electronic data processing system in the selected units.
* Introduction of uniform accounting system, which has facilitated grouping and codification of accounts.
* The support and guidance of federation.
* Availability of training facilities in federations and cooperative training institutions like V.L. Mehta National Institute of Cooperative Management and Institutes of Cooperative Management.

Suggestions for Strengthening Management Accounting Practices in Cooperatives

Cooperatives, especially the larger ones, offer wide scope for adoption of management accounting practices. The cooperative units under study are found to have tried to adopt major practices like budgetary control, costing, internal audit and reporting. However the results are not encouraging as the cooperatives encounter certain limiting factors which, as stated elsewhere, include excessive external control, drawbacks in the present financial accounting system, external initiative, improper understanding of the system, professional deficiency, inadequate incentive, deartli of training etc. Continued adoption and strengthening of management accounting practices necessitates the removal of existing hurdles and bottlenecks. The following suggestions would help improve the system:

* A systematic restructuring of existing system of accounting may be undertaken. Or, the cooperatives may seriously think of switching over to the double entry system of account keeping.
* The personnel in the accounting division require orientation in financial accounting and intensive training in management accounting. The personnel in other divisions and sections like production, marketing, administration etc., need to be given orientation on the purpose and necessity of management accounting practices.

* Preparation of budgets must be made at the unit level irrespective of the type of cooperative. All section heads must be involved in the act of building budgets. Daily review in the case of spinning, sugar and dairy units and weekly review in the case of wholesale units may be attempted at the unit level itself. The minutes of such review meetings should be properly documented and used to set right the deviations if any. Constitution of budget committee would serve the purpose.

* The government, as a major stakeholder in cooperatives, has the right to participate in the various aspects of cooperative business. But its role needs to be limited and restricted to that of a watchdog.

* Each cooperative unit shall maintain at least the minimum cost records for cost ascertainment and allocation which would help control the cost. Appointment of trained cost accountant would set right the problems in costing.

* Internal audit is another area which could be effectively used for controlling the operations of the business. The role and responsibilities of the internal auditor must be clearly spelt out. The emphasis in internal audit should be towards strengthening the control mechanisms in cooperative enterprises.

* Every cooperative unit must have management information system which necessarily requires installation of electronic data processing facilities. Barring the wholesale unit, others have electronic data processing system. But the system needs to be strengthened.

* The key element is the man behind the system. He must be aware of the need for MAS. He must be willing to experiment and must possess a positive attitude which largely depends on motivation and incentive.
Dormancy of democratic control has undermined the participatory management in cooperatives, which is an essential condition for the success of management accounting practices. Hence the democratically elected board has to be restored at the earliest opportunity.

**Conclusion**

Cooperative accounting, an indigenously evolved system of account keeping, is yet to be perfected. The large sized cooperatives have introduced a few tools of management accounting; but they do not normally serve the purpose. They are neither used for planning and controlling the operations of the business, nor they used in decision making process. As the cooperatives are managed by the government appointed Special Officers, decisions are highly centralised. Participatory decision making process—a cardinal principal of cooperative enterprise—has become defunct. Eventually employees of cooperative units get isolated. They are not motivated. The other reasons that could be attributed for not building up the accounting practices for planning and control in cooperatives are want of trained manpower, paucity of incentives and lack of interest on the part of the management. Therefore operational autonomy need to be ensiued to cooperatives to design and use an information system which would aid in the decision-making process.

**Suggestions for Further Research**

Research studies in management accounting in cooperatives are scanty. There is a vast scope for undertaking research in management accounting in cooperative organizations. Some of the areas for research in management accounting are:

* The status of management accounting in various types of cooperatives may be studied with a view to suggesting better approaches and methods.

* The ultimate aim of management accounting is to provide information for making operational, managerial and policy decisions which are likely to result in effective functioning of cooperatives in terms of better productivity and profitability. How do different decisions arrived at
using accounting based information affect the functioning of cooperatives? This issue could be a fruitful area of research.

Government plays a major role in promoting, developing and controlling cooperative organizations. The policies of the government, particularly on management and administration, have an important bearing on the decision-making process in cooperatives. What is the impact of such policies on the decision-making process? How do they promote or retard cooperative growth? These issues invite an in-depth analysis.

An important means of accounting is to provide problem solving data to the managers for making strategic and special decisions. Does the existing accounting system in cooperative enterprises fulfil this objective? How are problem solving data obtained in cooperatives? How are they reported? Are there any problems in gathering such data? These issues call for an in-depth study.